

Executive Summary

This report provides a review and evaluation of Kentucky's economy as well as the General Fund and Road Fund for the first quarter of Fiscal Year 2005 (FY05). General Fund receipts totaled \$1,761.4 million in the first quarter, an increase of 8.2 percent from the first quarter of FY04. This represents \$133.2 million more than reported in the same period of FY04.

Road Fund receipts in the first quarter of FY05 were \$285.9 million, a decline of 2.6 percent from the first quarter of FY04. This is \$7.7 million less than reported in the same period of FY04.

The first quarter of FY05 saw the national economy continue to register solid gains. Real gross domestic product (GDP) expanded at an annual rate of 3.4 percent in the first quarter. Personal income, a measure of spending power, likewise rose by 3.4 percent. Nonagricultural employment growth has begun to accelerate in recent months, rising 1.1 percent on an annualized basis. Manufacturing employment, which had been shrinking, also rose by an annualized 1.0 percent in the first quarter.

Kentucky's personal income was estimated at \$114.1 million in the first quarter of

FY05, representing an increase of 5.0 percent from one year ago.

Nonagricultural employment in the Commonwealth rose by 1.3 percent when compared to the previous year, with a gain of 23,000 jobs. Construction, manufacturing, business services, educational services, leisure and hospitality services, and the combined category of trade, transportation and utilities, all reported healthy gains in employment. Declining sectors included mining, information services, and other services.

General Fund receipts in the first quarter were boosted by gains in several of the

largest revenue sources. Performance by major tax or revenue category is detailed in Table 3 on page 9. Among the major accounts, the sales and use tax grew by 6.4 percent compared to the first quarter of FY04. The individual income tax rose by 5.4 percent, and the combined corporation income

and license taxes grew by 47.1 percent. The coal severance tax has recently been rising sharply, and this trend continued in the first quarter with receipts up by 25.5 percent. Property taxes were down 6.0 percent due to timing differences, and the lottery grew by 5.1 percent. All other taxes in the General Fund combined for a growth of 5.6 percent.



The Road Fund posted a decline in the first quarter of FY05, falling 2.6 percent with total revenues of \$285.9 million. Summary data on first-quarter Road Fund receipts appears in Table 4 on page 10. During the first quarter, motor fuels taxes rose by 8.6 percent, primarily as a consequence of the statutorily-mandated increase in the motor fuels tax rate. The motor vehicle usage tax declined by 7.6 percent, and the weight distance tax grew by 5.6 percent. The 21.8 percent decline in the “all other” category was principally due to decreases in highway tolls and investment income.

The national economic outlook for the next three fiscal quarters is for GDP growth to average 3.5 percent. In Kentucky, personal income should grow by 4.9 percent in the October-to-June FY05 period, compared to 5.4 percent nationally.

The interim outlook for the General Fund is for revenues to grow by 4.0 percent in the final three quarters of FY05. This forecast for the General Fund is detailed on the attached Table 6. Compared to the official consensus revenue estimate, the interim forecast anticipates that revenues will be higher by \$76.9 million in FY05. The improving economy is expected to allow growth to continue, but not at the rate achieved during the first quarter.

Sales tax revenues should rise 4.7 percent in the final three quarters of FY05, and individual income taxes are expected to grow 5.5 percent. Corporation income and license taxes are forecasted to rise

sharply, while property taxes will not reach the level predicted in the consensus revenue estimate. The coal severance tax is projected to grow by 13.0 percent for the remainder of FY05. The lottery should rise by 3.1 percent despite increased competition from the Tennessee lottery, but “other” taxes and revenues will decline primarily due to lower inheritance tax and abandoned property revenues.

The interim forecast for the Road Fund is for an increase of 5.7 percent in the final three quarters of the fiscal year. Compared to the official estimate, the interim forecast predicts an additional \$6.7 million in revenue in FY05. The interim forecast for the Road Fund is summarized on the attached Table 7.

Motor fuels taxes are expected to grow by 9.0 percent, mainly due to a continuation on the one-cent rate increase tied to the wholesale price of motor fuels. This represents a major change from the June consensus estimate, which assumed that fuel prices would decline later in the current fiscal year enough to reverse the increase. It is now assumed that fuel prices will remain at a level that will mandate the continuation of the higher rate through the end of FY05. Motor vehicle usage tax revenues should rise by 4.2 percent in the remaining three quarters of the fiscal year, and weight distance taxes should expand by 3.8 percent. License and privilege (excluding the weight distance tax) are expected to fall by 0.7 percent, as are toll incomes, by 5.4 percent.

The Economy

NATIONAL ECONOMY

First Quarter, FY05

Real gross domestic product (GDP) is an inflation-adjusted measure of the total output of goods and services produced in the United States. Real GDP is estimated to have increased by 3.4 percent in the first quarter. This follows relatively strong growth rates of over four percent during each of the last five quarters.

Those robust growth rates were related to a series of aggressive fiscal and monetary stimuli. With the absence of stimulus the economy shifted to a sustainable, long-term expansion pattern.

Consumption accounts for about two-thirds of real GDP. Total real consumption increased by 3.9 percent in the first quarter, compared to 5.0 percent a year ago. The surge last summer resulted mainly from an increase in take-home pay from tax cuts and tax credits. Gains in consumption are most pronounced in the durable-goods category which was up 14.7 percent. The growth in this category is still dominated by motor vehicles which were up sharply by 23.1 percent.

Consumption of other durable products was also up. Furniture and related goods were up 9.5 percent due to the strength of the housing sector. Consumption of nondurable goods was up 3.4 percent, compared to 6.9 percent a year ago. This category includes essentials like clothing and energy and usually remains fairly steady. Services comprise over half of all consumption and were up just 2.1 percent.

Total investment comprises close to a fifth of real GDP and is usually sensitive to both interest rates and future expansion opportunities. Overall, the investment component of GDP increased by 3.0 percent—following double-digit growth rates over the last four quarters.

Investment in computers and software was the strongest with growth of 12.0 percent. Businesses seem to realize that investment in information systems is critical to increasing productivity.

Government spending constitutes 17 percent of GDP and was up 2.2 percent. As expected, the greatest driver to growth was from defense spending, up 6.3 percent. With state budgets still under a tight constraint the spending from state and local governments was up by just 0.8 percent.

Industrial production was up by 3.1 percent, after a 4.9 percent increase in the previous quarter. All major areas of production were up especially the mining sector. With the increase in the price of crude oil and the subsequent rise in all energy products, production in the coal-mining sector was up 8.3 percent.

The University of Michigan Consumer Sentiment Index for the first quarter was at 96.2 compared to 89.3 a year ago. This clearly shows consumers are sanguine about the recovery, but it also indicates that higher energy prices have not filtered into their calculations about future spending and costs. Factory capacity utilization continues to be very low (76.4

percent) as production costs in Asian countries, particularly China, make it cost-effective to locate manufacturing plants abroad.

Personal income, a measure of spending power, was \$9,664.7 billion in the first quarter, for an annualized increase of 3.4 percent over the previous quarter. By historical standard this is notably weak growth, even after factoring in the low—1.9 percent—rate of CPI inflation.

The unemployment rate in the first quarter averaged 5.4 percent compared to 6.1 percent a year ago. Even though the rate is down, the size of the civilian labor force has grown by just 0.8 percent from a year ago. This may be due to a phenomenon known as the “discouraged worker syndrome.” When workers perceive the labor market to be inhospitable in terms of the number of jobs available or the wages offered, they withdraw entirely from the labor force and are no longer included in the unemployment estimates. Total nonagricultural employment averaged 131.5 million jobs in FY05:1, an increase of 1.1 percent from the previous quarter. Manufacturing employment is also on the rise with an increase of 1.0 percent during the first quarter.

STATE ECONOMY

Kentucky’s personal income is estimated to be \$114.1 billion for the first quarter of FY05, an increase of 5.0 percent from a year ago. U.S. personal income grew by 4.9 percent during the same period. Wages and salaries constitute a little over half of personal income. Income derived from wages and salaries is estimated to

have grown by 3.5 percent in FY05:1, at par with the national average. The relatively faster rate of growth in Kentucky’s personal income is accounted by income from transfer payments and other labor income in the form of employer contributions for employee pensions and health benefits.

Employment data is commonly used to gauge the strength of the state’s economy, primarily because of its timely availability and its impact on consumer spending and confidence. Nonagricultural employment in Kentucky is estimated to have increased by 23,000 jobs in the first quarter of FY05 compared to one year earlier, resulting in growth of 1.3 percent. During the decade of the 1990s the average growth rate in Kentucky’s nonfarm employment was 2.3 percent. However, given that productivity rates have increased substantially and there is excess production capacity in China and East Asia, the 1.3 percent increase is quite robust.

During the last year the employment categories reported for both Kentucky and the U.S. have been changed from Standard Industrial Classification (SIC) to the North American Industry Classification System (NAICS). This has resulted in a revision of job descriptions and with a new set of broad classifications called “super categories.” The eleven super categories are shown in Table 3 on page 7. The biggest change splits the service sector into six super categories: Information, Finance, Business services, Educational services, Leisure and Hospitality services, and a catch-all called “Other services.”

Most of the employment growth, both in terms of numbers and percentage change,

was in the Contract Construction sector (up 5.3 percent with an increase of 4,400 jobs). The relative strength of construction is from housing which continues to receive a boost from historically low mortgage rates. Business services constitute over 8 percent of total nonfarm employment and include temporary help services. The robust growth of 4.6 percent in this sector is associated with the continued reluctance of employers to add permanent full-time staff given the uncertainty in the economy.

Leisure and Hospitality services were up 1.3 percent. Most of the gain was in the area of accommodation and food services. The arts and entertainment portion of this category showed a slight decline.

Historically the focus of Kentucky's economy has been on the manufacturing sector. The newly revised definition of manufacturing makes it the third largest sector in the Kentucky economy after Government and Trade, Transportation, and Utilities. Manufacturing employment accounts for about 15 percent of all nonagricultural employment in

Kentucky compared to 11 percent nationally. Over the last four years manufacturing employment declined sharply due to both the relocation of production facilities abroad, and increased domestic productivity. During the first quarter manufacturing saw an uptick with employment increasing by 2,800 from a year ago.

In spite of increased output in the area of mining, the sector actually contracted by 4.0 percent from a year ago. However, the job loss was made up by a substantial increase in the number of hours in the workweek. Trade, transportation, and utilities account for a fifth of all jobs. This sector showed an increase of 1.4 percent. Most of the growth was concentrated in retail trade, while both air and truck transportation showed little change.



Table 2
National Economic Indicators
First Quarter, FY05

	FY04:1	FY04:4	FY05:1*	SAAR** FY04:4 to FY05:1	FY04:1 to FY05:1 Percent Change
Real GDP (billion 2000 \$)	10,472.8	10,771.4	10,862.3	3.4	3.7
Personal Income (billion \$)	9,209.3	9,585.3	9,664.7	3.4	4.9
Real Disposable Income (billion 2000 \$)	7,822.9	7,945.1	7,977.6	1.6	2.0
Consumer Price Index (annual percent change)	2.4	4.7	1.9	-	-
Industrial Production (annual percent change)	3.8	4.9	3.1	-	-
Civilian Labor Force (millions)	146.6	147.0	147.7	2.1	0.8
Total Nonagricultural Employment (millions)	129.8	131.1	131.5	1.1	1.3
Manufacturing Employment (millions)	14.4	14.4	14.4	1.0	0.1
Unemployment Rate (percent)	6.1	5.6	5.4	-	-

Sources: Global Insight, Inc., and U.S. Dept. of Commerce, Bureau of Economic Analysis.

* Data for FY05:1 are September 2004 estimates.

** Seasonally adjusted annual percent growth rate.

Table 3
Selected Kentucky Economic Indicators
First Quarter, FY05
(Thousands)

	FY04:1	FY05:1	Change	Percent Change
Total Personal Income (\$ millions)	108,608	114,070	5,462	5.0
Wage & Salary Income (\$ millions)	58,575	60,611	2,036	3.5
Total Nonagricultural Employment	1,780.2	1,803.2	23.0	1.3
Contract Construcion	82.9	87.3	4.4	5.3
Mining	19.8	19.0	-0.8	-4.0
Manufacturing	265.1	267.9	2.8	1.1
Trade, Transportation & Utilities	371.7	376.8	5.1	1.4
Information	30.0	29.9	-0.1	-0.3
Finance	86.3	86.9	0.7	0.8
Business Services	153.2	160.2	7.0	4.6
Educational Services	226.9	230.6	3.7	1.6
Leisure and Hospitality Services	156.7	158.8	2.1	1.3
Other Services	77.6	74.7	-3.0	-3.8
Government	310.0	311.1	1.2	0.4

Note: Numbers may not add up due to rounding.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis.
GOEA Macromodel of Kentucky Forecast, September 2004

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Revenue Receipts

First Quarter FY2005

General Fund

Revenues in the first quarter of FY05 grew sharply compared to the first quarter of FY04, up by 8.2 percent. Receipts in the first quarter totaled \$1,761.4 million compared to \$1,628.2 million received in the first quarter of FY04. Collections in the major revenue categories are shown in summary form in Table 3. Detailed information on these and other accounts is available in the Appendix.

Variations in the quarterly receipts are affected by differences in the timing of payments into revenue accounts. While timing differences were not as prevalent as in the past, property tax receipts continue to fluctuate because of these differences.

Total sales and use tax receipts for the first quarter of FY05 were \$644.4 million, compared to \$605.9 million in the first quarter of FY04. The resulting growth of 6.4 percent largely reflected the improving economic situation in the Commonwealth.

The individual income tax posted receipts of \$741.6 million, compared to last year's first-quarter receipts of \$703.7 million. This results in a growth rate of 5.4 percent, and compares to last year's first quarter growth of 5.0 percent.

Corporation income and license tax receipts rose sharply in the first quarter of FY05. Revenues of \$131.5 million were 47.1 percent higher than year-earlier figures of \$89.4 million.

Property tax receipts posted a 6.0 percent decline over the first quarter of a year ago,

primarily due to a significant timing difference in Public Service Company property tax payments. FY05 first-quarter receipts of \$38.6 million compare with \$41.0 million from the first quarter of FY04.

Coal severance tax revenue has been growing rapidly in recent months, and receipts were up 25.5 percent in the first quarter of FY05. Collections of \$42.9 million compare to the FY04 first-quarter total of \$34.2 million.

Lottery receipts were \$45.0 million, up 5.1 percent from last year's first-quarter total

Type Tax	FY04	FY05	Percent Change
Sales and Use	605.9	644.4	6.4
Individual Income	703.7	741.6	5.4
Corporation Inc./Lic.	89.4	131.5	47.1
Coal Severance	34.2	42.9	25.5
Property	41.0	38.6	-6.0
Lottery	42.8	45.0	5.1
All Other	111.2	117.4	5.6
TOTAL	1,628.2	1,761.4	8.2

of \$42.8 million. Increased receipts were influenced by Powerball sales.

The “all other” category, which represents the remaining accounts in the General Fund, increased by 5.6 percent in the first quarter. First-quarter receipts for FY05 were \$117.4 million and compare to \$111.2 million in FY04.

Road Fund

The Road Fund posted a small decrease in the first quarter of FY05, declining 2.6 percent compared to the first quarter of FY04. Receipts totaled \$285.9 million and compare to \$293.6 million from the first quarter of last year. Summary data are contained in Table 4, and detailed data are shown in the Appendix.

Motor fuels tax receipts grew by 8.6 percent during the first quarter. Receipts were \$121.9 million and compare to \$112.2 million collected during the first quarter of last year. Motor fuels tax revenues were boosted by a mandated rise of one-cent per gallon in the tax rate tied to the wholesale price of gasoline.

The motor vehicle usage tax fell in the first quarter, with receipts down by 7.6 percent. Receipts during the first quarter of FY05 totaled \$109.5 million and compare with \$118.6 million collected during the same period last year.

Weight distance tax receipts of \$20.8 million represent an increase of 5.6 percent over receipts of \$19.7 million during the first quarter of FY04.

The remainder of the accounts in the Road Fund combined for a decrease of 21.8 percent from a year earlier. In

the “all other” category, revenues of \$33.7 million were down from the \$43.1 million in the first quarter of FY04. During the first quarter, three accounts within the “all other” category had significant changes in receipts. First, motor vehicle license fees were down due to a timing difference with the previous fiscal year’s receipts. Second, investment income was down 83.4 percent due to lower Road Fund balances. Third, the removal of tolls on several state parkways during the previous fiscal year reduced toll revenue by 49.2 percent.

Table 4
Summary Road Fund Receipts
First Quarter, FY 2005
(millions of dollars)

<u>Type Tax</u>	<u>FY04</u>	<u>FY05</u>	<u>Percent Change</u>
Motor Fuels	112.2	121.9	8.6
Motor Vehicle Usage	118.6	109.5	-7.6
Weight Distance	19.7	20.8	5.6
All Other	<u>43.1</u>	<u>33.7</u>	<u>-21.8</u>
TOTAL	293.6	285.9	-2.6



Economic and Revenue Outlook

Final Three Quarters of FY2005

NATIONAL ECONOMY

During much of FY04 the economic recovery was tentative, especially with the slow turnaround in the labor market. With each successive quarter in FY05, however, the economy is seen to gather strength as both output and employment show improvement. Summary data on the U.S. economic outlook is shown in Table 5.1 on page 15.

Real GDP is expected to show a gain of 3.5 percent from a year ago during the October-to-June period of FY05. Though this is substantially lower than the 4.7 percent growth experienced during the same period in FY04, the difference is that GDP is expected to be driven not so much by consumption but by investment and exports. Employment in nonagricultural industries is forecasted to be up by 1.6 percent compared to the tepid 0.3 percent increase in the same period last year. The greatest turnaround is expected to occur in the manufacturing sector with an employment increase of 1.1 percent compared to a decline of 2.9 percent during the last three quarters of FY04.

Over the last three years consumption has played a greater role in real GDP as the other components—investment, net exports, and government spending—have been hit by overcapacity, the strong

dollar, and state government budget woes which have counterbalanced federal government spending. During the next three quarters of FY05 consumption is expected to increase by 2.9 percent compared to 3.8 percent a year ago. Consumption of durable goods is expected to soften substantially from 8.6 percent a year ago to 3.5 percent. The dampening is related to increased interest rates and the subsequent slowdown in the consumption of motor vehicles and parts—from 4.4 percent during the last three quarters of FY04 to 0.3 percent in FY05.

Investments are expected to show continued strength by going up 7.1 percent. The main driver for this growth is investment in business equipment and software which is forecasted to increase by 11.2 percent. During FY05 both Europe and Asia are anticipated to have robust economies. This is expected to boost exports by 9.3 percent. Growth in imports is expected to lag exports because of the continued weakness of the dollar. Government purchases are forecasted to increase by 2.2 percent in the last three quarters of FY05—the same rate as a year ago.

U.S. personal income is forecasted to increase by a robust 5.4 percent as employment strengthens. In spite of higher energy prices, inflation is expected to be kept in check with increases of 2.5 percent.

STATE ECONOMY

The impact of the national recovery will be felt in the state economy. However, since the goods-producing sectors dominate the state economy, the national average will be slightly higher than the state average. Summary data on the Kentucky economic outlook appears in Table 5.2 on page 15. Personal income is estimated to increase by 4.9 percent during the October-to-June FY05 period compared to a 5.4 percent increase nationally.

Kentucky's nonagricultural employment is expected to grow strongly during the final three quarters of FY05 with a gain of 1.5 percent. Most of the job growth is anticipated to come from the goods-producing sector which includes mining, construction and manufacturing. The combined growth in these sectors is estimated at 1.9 percent resulting in 7,000 new jobs. The service-providing industries are forecasted to expand by 1.4 percent with the creation of 15,400 jobs. Employment in government—including federal, state, and local—is anticipated to rise by 1.6 percent.

Business services are expected to post the strongest gains with an increase of 5.8 percent. The construction industry is expected to remain strong. Even though interest rates are expected to rise further in FY05, the rates are still near historical lows. With the strengthening of the economy and income, the housing sector is expected to remain strong. The slight gain in mining is related to high natural-gas prices and the subsequent increased demand for coal. The biggest plus to the Kentucky economy is the return of manufacturing employment.

Manufacturing employment declined by 1.1 percent during the period October-to-June in FY04. This year most of that job loss is expected to be recovered with the expansion of the economy. However, manufacturing employment will still remain about 40,000 lower than its peak in FY01.

GENERAL FUND

Projected General Fund revenues for the next three quarters are shown in Table 6 on page 16. General Fund revenues were \$1,761.4 million in the first quarter of FY05, a growth rate of 8.2 percent from the same period a year ago. Revenues grew strongly primarily due to improved economic performance as most major categories of revenues saw gains. However, first-quarter growth was strongest in the volatile corporation income and license taxes as well as coal severance taxes, all of which are expected to moderate in the remainder of FY05.

Anticipated revenues for the last three quarters of FY05 are \$5,564.5 million, corresponding to a growth rate of 4.0 percent from the previous fiscal year. Growth is expected to be positive in all major accounts.

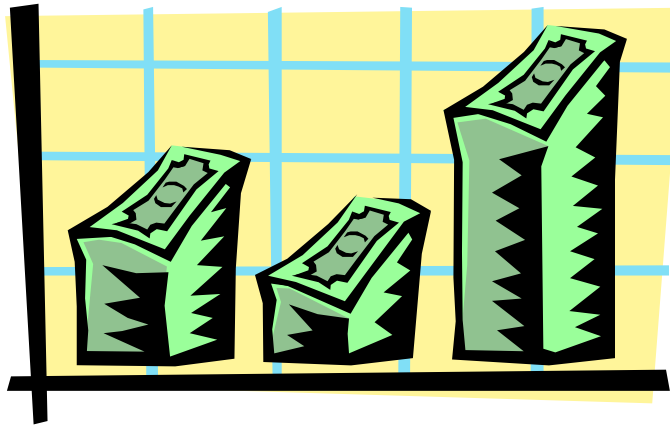
The official consensus revenue estimate prepared in June 2004 anticipates General Fund revenues of \$7,249.0 million for FY05. The interim forecast as shown in Table 6 anticipates that revenues will be \$7,325.9 million, an increase of \$76.9 million. As explained below, most major sources of revenue are expected to grow.

Total sales and use tax receipts for the first quarter of FY05 were \$644.4 million, representing an increase of 6.4 percent from the same period one year ago. The projected rate of growth for the remaining three quarters of FY05 is 4.7 percent. Total sales and use tax receipts for FY05 are estimated to be \$2,572.0 million, or \$7.5 million above the official estimate.

The interim forecast for the individual income tax calls for a growth of 5.5 percent for the remainder of FY05, amounting to collections of \$2,207.9 million in the final nine months. The individual income tax rose by 5.4 percent in the first quarter of FY05, and in the remaining three quarters revenues are expected to continue to grow by a similar rate. For the entire fiscal year, individual income tax receipts are projected to grow by 5.5 percent.

The outlook for corporation income and license taxes projects an increase of 11.2 percent in the final three quarters of FY05, representing collections of \$376.0 million. These anticipated collections will bring the FY05 total to \$507.5 million, an increase of 18.7 percent from FY04. Revenues in FY05 for the corporate license tax will be boosted by an expected \$24.4 million when the provisions of HB 390 expire.

The coal severance tax recently reversed its long-term trend of decline and has risen for most of the calendar year so far. The forecast is for the increases to persist for the remainder of FY05, and growth is



forecasted to be robust at 13.0 percent for the remaining three quarters. Overall for the fiscal year, coal severance tax receipts are expected to rise by 15.9 percent.

Property tax revenues totaled \$38.6 million in the first quarter of FY05, representing a decline of 6.0 percent. It is expected that the remaining three quarters of FY05 will yield total property tax revenues of \$419.0 million, for a growth of 2.8 percent from the previous year. Declines year-to-date are the result of timing differences, and growth for the entire fiscal year should average 2.0 percent.

Lottery revenues grew by 5.1 percent in the first quarter of FY05 as the state benefited from extra dividends earned due to large Powerball sales. In the next three quarters, lottery revenues are expected to continue to rise by 3.1 percent. For the entire fiscal year, lottery receipts should rise by 3.6 percent.

The “other” category contains estimates for several of the smaller revenue sources not otherwise classified. The final three quarters of FY05 should experience a sharp decline in this category due primarily to expected decreases in inheritance tax revenue and legislative changes adopted by the 2003 General Assembly that affected abandoned property receipts. For the remainder of the fiscal year, the combined “other” accounts are expected to fall by 12.7 percent.

ROAD FUND

Road Fund revenues over the three-quarter horizon are forecasted to grow by 5.7 percent as shown in Table 7 on page 17. This represents an increase of \$6.7 million from the official revenue estimates prepared in June 2004.

Motor fuels tax receipts are forecasted to grow by 9.0 percent in the last three quarters of FY05. This is principally due to a change in forecasted gasoline prices and their effect on the statutory rate of the motor fuels tax. The official forecast anticipated a decline in gasoline prices later in FY05 would remove the one-cent per gallon increase mandated by statute; this new estimate assumes higher gasoline prices will persist for at least the remainder of the fiscal year.

Motor vehicle usage tax collections are expected to rise by 4.2 percent in the final three quarters of FY05. Nevertheless, the interim estimate represents a reduction of \$11.0 million from the official estimate, due primarily to an administrative decision to grant a credit against the tax

for Kentucky residents who purchase their vehicle in Indiana. (Indiana recently began collecting a sales tax on motor vehicles purchased within that state by Kentucky residents. Previously, Indiana provided a credit for cars that would not be registered in that state.)

To estimate the growth of all other components of the Road Fund, officials of the Kentucky Transportation Cabinet and staff of the Governor's Office for Economic Analysis together assessed recent growth patterns as well as administrative factors. License and privilege taxes (excluding the weight distance tax) are expected to decline by 0.7 percent, and toll income likewise is estimated to continue declining. Weight distance tax revenue should

improve by 3.8 percent for the remainder of FY05 due to an improving economy. Investment income is forecasted to rise by 57.1 percent from a

very low base. All revenues are expected to dip by 5.4 percent. The combined "other" accounts in the Road Fund are projected to grow by 2.2 percent in the final three quarters of FY05.



Table 5.1
U.S. Economic Outlook for FY05
Quarters 2, 3, & 4

	FY04	FY05	Percent* Change
Real GDP (billion 2000 \$)	10,683.2	11,057.1	3.5
Personal Income (billion \$)	9,453.4	9,962.7	5.4
Consumer Price Index (1982-84=100)	186.6	191.3	2.5
Industrial Production (1992=100)	114.3	119.2	4.3
Civilian Labor Force (millions)	146.9	148.8	1.3
Total Nonagricultural Employment (millions)	130.5	132.6	1.6
Manufacturing Employment (millions)	14.4	14.5	1.1
Unemployment Rate (percent)	5.7	5.4	-

* Seasonally adjusted annual rate.

Sources: Global Insight, and U.S. Department of Commerce, BEA.
Data for FY05 are September 2004 estimates.

Table 5.2
Kentucky Economic Outlook for FY04
Quarters 2, 3, & 4

	<u>FY04</u>	<u>FY05</u>	<u>Percent*</u> <u>Change</u>
Total Personal Income (\$mil)	111,734	117,228	4.9
Wage & Salary Income (\$mil)	59,843	62,075	3.7
Total Nonagricultural Employment	1,788.5	1,815.7	1.5
Contract Construction	86.0	88.1	2.5
Mining	19.0	19.1	0.8
Manufacturing	265.5	270.2	1.8
Trade, Transportation & Utilities	371.8	378.0	1.7
Information	30.2	30.3	0.4
Finance	87.1	87.2	0.1
Business Services	154.5	163.4	5.8
Educational Services	229.6	233.1	1.5
Leisure and Hospitality Services	160.0	159.9	0.0
Other Services	78.3	75.0	-4.3
Government	306.5	311.4	1.6

* Seasonally adjusted rate from a year ago.

Source: GOEA's Macromodel of Kentucky, September 2004

Table 6
General Fund Interim Forecast
(millions of dollars)
October 2004

	FY05		FY05		FY05		Official Budget Estimate	Diff
	Quarter 1	% Chg Year Ago	Quarters 2,3, & 4		Full Year			
			Interim Estimate	% Chg Year Ago	Interim Estimate	% Chg Year Ago		
Sales & Use	644.4	6.4	1,927.6	4.7	2,572.0	5.1	2,564.5	7.5
Individual Income	741.6	5.4	2,207.9	5.5	2,949.5	5.5	2,930.0	19.5
Corporation Inc. & Lic.	131.5	47.1	376.0	11.2	507.5	18.7	467.8	39.7
Coal Severance	42.9	25.5	128.0	13.0	170.9	15.9	158.5	12.4
Property	38.6	-6.0	419.0	2.8	457.6	2.0	465.8	-8.2
Lottery	45.0	5.1	135.0	3.1	180.0	3.6	180.0	0.0
Other	117.4	5.6	371.0	-12.7	488.4	-8.9	482.4	6.0
Total General Fund	1,761.4	8.2	5,564.5	4.0	7,325.9	5.0	7,249.0	76.9

Table 7
Road Fund Interim Forecast
 (millions of dollars)
October 2004

	FY05			FY05			Official Budget Estimate	Diff
	Quarter 1		Quarters 2, 3 & 4					
	% Chg		Interim	% Chg				
	Actual	Year Ago	Estimate	Year Ago	Estimate	Year Ago		
Motor Fuels & MF Use/Surtax	127.0	8.6%	374.1	9.0%	501.1	8.9%	483.7	17.4
Motor Vehicle Usage & Rental	109.5	-7.7%	323.7	4.2%	433.2	0.9%	444.2	-11.0
License & Privilege (excl. WD)	21.0	-16.1%	87.7	-0.7%	108.7	-4.1%	111.9	-3.2
Weight Distance Tax/Surtax	20.8	5.6%	62.2	3.8%	83.0	4.3%	80.4	2.6
Toll Income	1.6	-50.0%	4.5	-5.4%	6.1	-23.3%	6.1	0.0
Investment	0.9	-83.3%	3.3	57.1%	4.2	-44.0%	3.4	0.8
Other	5.069	6.7%	14.6	2.2%	19.7	3.3%	19.6	0.1
Road Fund	285.9	-2.6%	870.1	5.7%	1,156.0	3.5%	1,149.3	6.7

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APPENDIX

KENTUCKY STATE GOVERNMENT - GENERAL FUND REVENUE

	First Quarter 2004 - 2005	First Quarter 2003 - 2004	Percent Change
TOTAL GENERAL FUND	\$1,761,382,454	\$1,628,229,510	8.2
Tax Receipts	\$1,687,477,801	\$1,559,467,102	8.2
Sales and Gross Receipts	\$694,773,787	\$653,083,010	6.4
Beer Consumption	1,834,769	1,712,215	7.2
Beer Wholesale	10,529,852	10,389,848	1.3
Cigarette	3,998,091	4,049,655	-1.3
Distilled Spirits Case Sales	22,259	21,681	2.7
Distilled Spirits Consumption	2,290,634	2,220,283	3.2
Distilled Spirits Wholesale	4,231,686	4,059,826	4.2
Insurance Premium	25,143,608	22,497,346	11.8
Pari-Mutuel	18,718	(12)	—
Race Track Admission	98,983	129,910	-23.8
Sales and Use	644,410,695	605,927,159	6.4
Wine Consumption	480,682	466,423	3.1
Wine Wholesale	1,713,810	1,608,678	6.5
License and Privilege	\$66,393,454	\$54,242,537	22.4
Alc. Bev. License Suspension	62,250	81,250	-23.4
Coal Severance	42,893,672	34,172,454	25.5
Corporation License	13,491,055	10,368,944	30.1
Corporation Organization	20,343	18,960	7.3
Occupational Licenses	56,981	39,474	44.4
Oil Production	1,018,703	815,813	24.9
Race Track License	159,500	165,200	-3.5
Bank Franchise Tax	209,290	(452,685)	—
Driver License Fees	142,542	134,143	6.3
Minerals Severance	3,699,847	3,829,573	-3.4
Natural Gas Severance	4,639,272	5,069,411	-8.5
Income	\$859,627,916	\$782,797,463	9.8
Corporation	118,017,026	79,051,340	49.3
Individual	741,610,890	703,746,123	5.4
Property	\$38,562,112	\$41,012,953	-6.0
Bank Deposits	0	0	—
Building & Loan Association	71,384	36,375	96.2
Distilled Spirits	0	29,735	-100.0
General - Intangible	3,830	(72,758)	—
General - Real	223,100	54,978	—
General - Tangible	21,721,551	15,902,939	36.6
Omitted & Delinquent	4,756,291	2,808,676	69.3
Public Service	11,770,126	22,240,986	-47.1
Other	15,830	12,021	31.7
Inheritance	\$19,159,561	\$19,149,271	0.1
Miscellaneous	\$8,960,970	\$9,181,869	-2.4
Legal Process	6,934,139	7,245,536	-4.3
T. V. A. In Lieu Payments	2,026,831	1,936,333	4.7
Other	0	0	—
Nontax Receipts	\$72,561,686	\$63,613,625	14.1
Departmental Fees	5,967,308	5,971,223	-0.1
PSC Assessment Fee	11,033,008	5,444,439	102.6
Fines & Forfeitures	6,580,721	6,760,981	-2.7
Interest on Investments	241,201	247,510	-2.5
Lottery	45,000,000	42,800,000	5.1
Sale of NOx Credits	3,230,425	2,931,250	—
Miscellaneous	509,023	(541,779)	—
Redeposit of State Funds	\$1,342,967	\$5,148,783	-73.9

KENTUCKY STATE GOVERNMENT - ROAD FUND REVENUE

	First Quarter 2004 - 2005	First Quarter 2003 - 2004	Percent Change
TOTAL ROAD FUND	\$285,905,432	\$293,573,316	-2.6
Tax Receipts-	\$278,302,380	\$280,183,857	-0.7
Sales and Gross Receipts	\$236,517,847	\$235,472,221	0.4
Motor Fuels Taxes	121,870,316	112,168,734	8.6
Motor Fuels Use & Surtax	5,000,986	4,628,354	8.1
Truck Trip Permits (fuel)	134,165	97,520	37.6
Motor Vehicle Usage	109,512,380	118,577,614	-7.6
License and Privilege	\$41,784,534	\$44,711,636	-6.5
Motor Vehicles	16,825,955	21,310,570	-21.0
Motor Vehicle Operators	1,632,019	1,416,969	15.2
Weight Distance	20,786,727	19,678,133	5.6
Truck Decal Fees	131,528	32,794	301.1
Other Special Fees	2,408,305	2,273,170	5.9
Nontax Receipts	\$7,457,676	\$13,120,504	-43.2
Departmental Fees	4,465,873	3,923,427	13.8
In Lieu of Traffic Fines	369,304	393,586	-6.2
Highway Tolls	1,632,219	3,210,289	-49.2
Investment Income	899,852	5,427,841	-83.4
Miscellaneous	90,428	165,360	-45.3
Redeposit of State Funds	\$145,376	\$268,955	-45.9